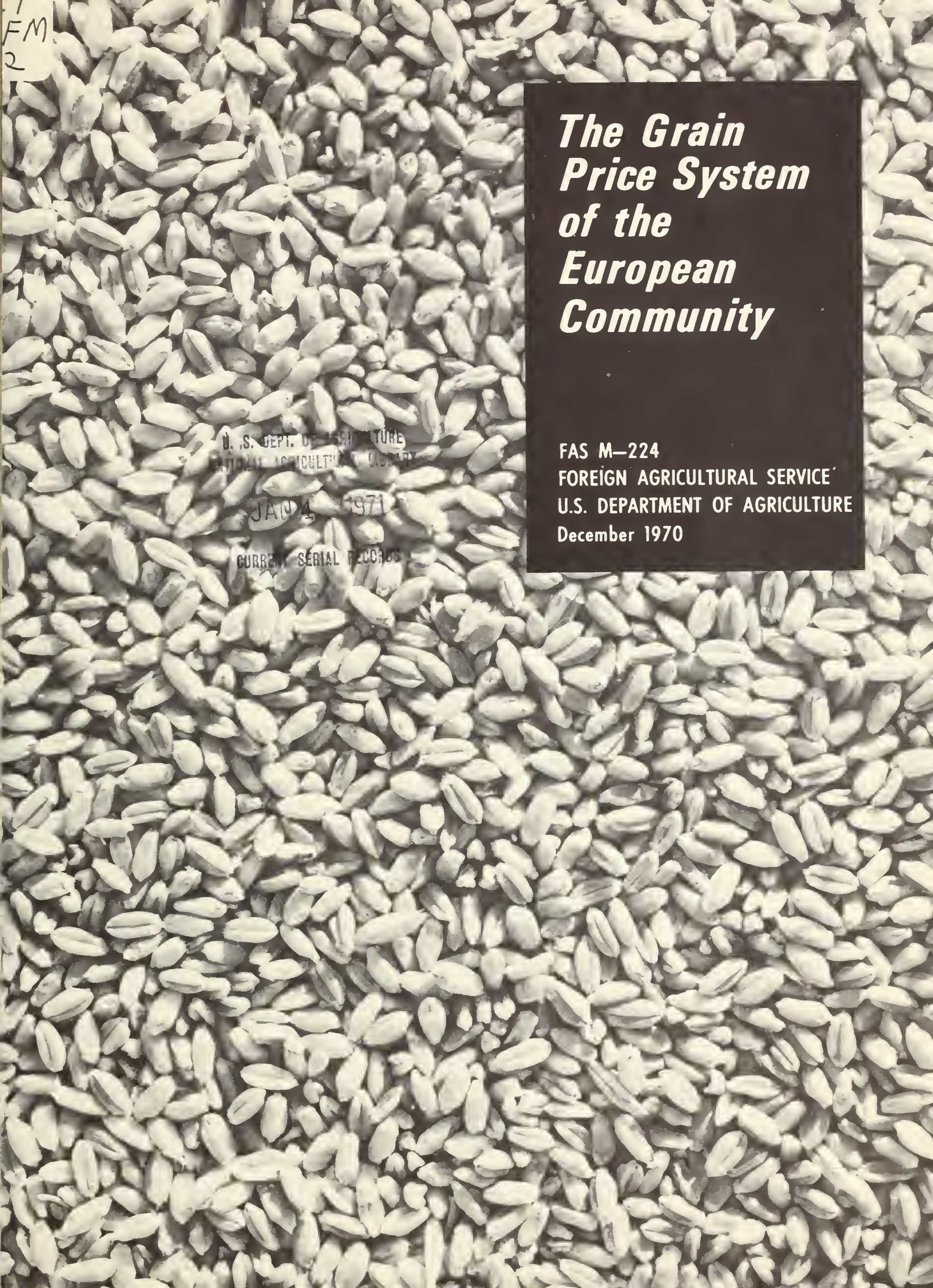

The Grain Price System of the European Community

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FOREWORD

The European Community's grain price system has become widely known for its effects upon world grain trade. The system began to be implemented in 1962, but will not be fully effective until 1972, when the last of a long series of upward feedgrain price adjustments will be completed in Italy. Among the other five countries of the Community, and for milling wheat in Italy, implementation was largely completed by July 1, 1967, when for the first time all member countries began charging levy against third-country grain, and grain began to be moved from one member country to another with no duties or barriers whatsoever.

Most of the currently effective implementing regulations for the grain system were issued during 1967. This publication attempts to explain that system and to describe some of the operational features that are especially relevant to international trade in grains. Some refinements of the system in the form of modifying regulations have appeared, and will no doubt continue to be made; this publication is based on regulations and procedures understood to be effective as of August 1970.

This publication may best be used in conjunction with *Grain in the European Community*, FAS M-218, June 1970; *Grain Developments in the Common Market*, FAS M-202, December 1968; and *Common Market Grain Statistics*, FAS M-192, September 1967.

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INTRODUCTION

The Treaty of Rome in 1957 established the basis for the European Community's common agricultural policy (CAP) for grain. Beginning on July 1, 1962, the six member states brought their individual grain policies through a transition period which was completed in most respects on July 1, 1967.

Prior to establishment of the CAP, levels of support prices for grains in France were partly dependent upon changes in world market conditions. In addition, large French producers of wheat were under a quantum system, which reduced the final level of returns as the amount of wheat delivered increased; in some years this feature meant that marginal returns were no higher than the world price. The feedgrain prices in other member countries were based generally upon world market levels. Only in West Germany were all grain prices guaranteed at a level well above the world price level.

The Community since July 1, 1967, has guaranteed the price of EC-produced grain at a relatively high level through a system of intervention or support prices. Since EC intervention prices are above the levels of external or world prices, the intervention system must be protected from these external influences if it is to function. All grains imported enter the Community at price levels above the highest intervention price. The mechanism for raising the prices of imported grains to these levels is the variable import levy. Threshold prices (which are further explained in the section describing the EC import system) are set for each grain to serve as a basis for the levies assessed against grain entering from third countries. These threshold prices, though applied at a different location, generally parallel the internal-market intervention prices which they are designed to protect.

INTERNAL GRAIN PRICE SUPPORT SYSTEM

The basic system used by the Community for supporting prices of internally-produced grain is the intervention system. Under this system authorized government or semigovernmental agencies in each member country are required to buy all grain offered to them; under ordinary circumstances, such buying is required only at the location of authorized "intervention centers," and only at the "intervention prices" prescribed for each grain at each center. Once having acquired certain stocks of grain under their buying obligations, the intervention agencies also have authority to store or dispose of the grain under specified conditions.

The EC Council, which is the final authority on all policies, annually establishes intervention prices for each grain produced in the Community. The basis for the prices as specified in the grain regulations, is delivered, not unloaded, at the intervention center. In theory, the intervention price structure is supposed to be based upon the flow of grain to one deficit market, Duisburg, West Germany. The prices at the other intervention points are supposed to be based upon the intervention price established for Duisburg less the cost of transportation. However, in actual practice, the original idea has been modified to accommodate various special conditions within the member states.

The working structure of the intervention price system involves a total of 13 loosely defined geographic regions. Four of these relate mainly to internally marketed grain and are called "derivation zones;" the remaining nine relate mainly to export movements.

The four "derivation zones," although not formally defined by regulation, are: (1) the Duisburg zone, which includes the Netherlands, Belgium, Luxemburg, all of Germany except the extreme north and southeast, the northern and eastern parts of France, the Paris basin, and the northern part of the central region of France; (2) Italy; (3) northern Germany; and (4) the Marseilles zone, which includes the remainder of France except for the Altantic Coast.

The nine export zones, which can be recognized by their similar levels of intervention prices but are not defined geographically by the regulations, are on the French Atlantic coast and in the southeast part of West Germany. They are: Rouen, Nantes, La Pallice, Bayonne, Bordeaux, Caen, and St. Malo in France and Regensburg and Passau in southeast West Germany.

Each of these 13 geographic regions has at least one principal market center and a large number of local intervention centers. Within the entire Community there is a total of 810 intervention centers, 40 principal market centers and 770 local intervention centers. However, not all the centers have prices for all the grains that come under the intervention system. (See map, opposite page.)

The Intervention Prices

All intervention prices are determined annually by the Council. According to regulation they should be announced by May 15 in the case of the 40 principal market centers and the export ports and by August 1 for the local centers for the crop year beginning August 1. (See table 1.)

The intervention prices for the major deficit markets tend to be near the highest intervention price set by the Council. The intervention prices at the export ports are defined by regulation and are generally uniform for the whole Community; these are about 3 percent lower than the highest intervention price and are generally based on the transport and other costs between Duisburg and the port of Rouen, which is regarded as the main port of export for EC-produced grain.

Table 1.–EC intervention prices and premiums for grains[1]

Grain	Beginning-of-season prices		
	1967-68	1968-69	1969-70 & 1970-71[2]
	U.S. dollars per metric ton	*U.S. dollars per metric ton*	*U.S. dollars per metric ton*
Soft wheat	91.86-98.75	91.86-98.75	91.41-98.75
Durum wheat	110.24-117.50	110.24-117.50	110.24-117.50
Barley	76.85-85.00	79.26-87.95	79.26-88.47
Rye	79.61-87.50	81.01-91.00	79.98-91.00
Corn	[3] 77.00	[3] 79.31	[3] 79.31

Grain	Premiums added to the basic intervention price throughout the year											
	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July
	U.S. dol. per metric ton	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*
Soft wheat	--	0.95	1.90	2.85	3.80	4.75	5.70	6.65	7.60	8.55	--	--
Durum	--	1.05	2.10	3.15	4.20	5.25	6.30	7.35	8.40	9.45	--	--
Barley	--	--	.75	1.50	2.25	3.00	3.75	4.50	5.25	6.00	--	--
Rye	--	.85	1.70	2.55	3.40	4.25	5.10	5.95	6.80	7.65	--	--
Corn	--	--	--	.93	.93	1.86	2.79	3.72	4.65	5.58	5.58	5.58

[1] There is no intervention price for oats or sorghum; where different prices exist for different locations, a range is given showing the highest and lowest for all EC points. [2] See table 3 for French intervention prices for 1969-70 and 1970-71. [3] There is a single intervention price for corn for all trading centers if the marketed domestic crop represents less than 45 percent of the quantity consumed in the Community. This price corresponds to the lowest intervention price which would be fixed if there were more than one.

EUROPEAN COMMUNITY: Grain Intervention Zones and Export Ports

In surplus markets the wheat and barley intervention prices can be 7 percent and 10 percent, respectively, below the highest intervention level for each grain. In the case of corn, intervention prices are currently the same at all locations, but regulations provide that when the EC produces over 45 percent of its domestic consumption, different intervention levels will be introduced. (See table 2.) There are no intervention prices for oats or sorghum, and only a limited number of centers have intervention prices for rye and durum.

The Council, in addition to determining the intervention prices for the beginning-of-season or base level, also fixes the amount of monthly increases in the intervention prices, which are provided to cover the cost of storage and insurance. The intervention prices for soft wheat, rye, and durum are increased by $0.95, $0.85, and $1.05, respectively, per metric ton each month starting in September and continuing through May. The intervention prices for all other grains, except corn, increase by $0.75 per month starting in October and continuing through May. On June 1, the next year's base intervention price comes into effect for all grains except corn. The corn intervention price increases by $0.92 in November, remains unchanged in December, increases $0.92 per month from January through May, and remains at the May level through July. (See table 1.)

Table 2.—Beginning-of-season grain intervention prices for selected markets in the main EC price zones

Zone and market	1967-68		1968-69		1969-70		1970-71[1]	
	Wheat	Barley	Wheat	Barley	Wheat	Barley	Wheat	Barley
	U.S. dol. per metric ton	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*
Duisburg zone:								
Duisburg[2]	98.75	85.00	98.75	87.95	98.75	88.47	98.75	88.47
Rotterdam	98.13	84.38	98.12	87.35	98.12	87.86	98.12	87.86
Antwerp	97.56	83.81	97.56	86.78	97.66	87.38	97.66	87.38
Corbeil	94.94	81.20	94.76	84.36	82.90	73.90	86.72	78.07
Chartres[3]	92.11	78.36	92.01	81.24	80.30	71.31	84.00	75.33
Compiègne	95.23	81.48	95.05	84.28	83.08	74.10	86.90	78.26
Stuttgart	98.30	85.00	98.05	87.98	97.54	88.48	97.54	88.48
Aulendorf	96.61	–	94.93	--	94.69	--	94.69	--
North German zone:								
Hamburg	98.31	84.54	98.31	87.52	98.12	88.02	98.12	88.02
Kiel	97.06	84.54	97.05	87.52	96.86	88.02	96.86	88.02
Italian zone:								
Naples[2]	98.75	--	98.75	--	98.75	86.30	98.75	86.30
Genoa	96.15	83.25	95.97	87.25	--	--	--	--
Bologna	95.07	--	94.88	--	94.24	--	94.24	--
Udine[3]	95.07	--	93.18	--	92.18	--	92.18	--
Foggia	98.75	83.25	98.75	97.25	97.60	83.00	97.60	83.00
Marseille zone:								
Marseille[2]	98.75	85.00	98.75	87.25	86.41	76.78	90.39	81.09
Toulouse	94.82	79.25	95.01	81.56	82.13	71.66	85.91	75.69
Chateauroux[3]	92.11	76.85	92.01	79.26	81.25	70.45	83.66	73.26
Export zones:								
Rouen	95.27	82.43	95.29	84.52	83.54	74.56	87.39	78.75
Tours[4]	91.86	78.28	91.89	80.70	80.18	--	83.88	74.77
La Pallice	95.27	82.43	95.29	84.52	83.54	74.56	87.39	70.75
Poitiers[4]	91.96	78.60	92.01	81.24	80.30	71.31	84.00	75.33
Regensburg	95.27	82.43	95.29	85.41	95.29	85.91	95.29	85.91
Schwabach[4]	96.20	81.38	95.95	84.13	95.44	84.63	95.44	84.63
	1967-68		1968-69		1969-70		1970-71	
					French	Other	French	Other
Corn (same in all markets)	77.00		79.31		[1]69.40	79.31	[1]73.65	79.31

[1] All French prices were reduced in 1969-70 because of the devaluation. In the 1970-71 market year French prices were increased but all others are the same as 1969-70. [2] Highest within the zone. [3] Lowest within the zone.
[4] Markets within the export zones.

Conditions of Purchase

When grain is delivered to an intervention center, the seller receives the intervention price modified by the month of sale, quality, and location. Because intervention regulations require large homogeneous lots and may require that delivery sometimes be made at a distant point, grain is usually sold by cooperatives or wholesale grain merchants who have acquired the grain from individual farmers. The regulations state that payment should be as soon as possible after delivery. However, in some countries payment has been delayed for up to 2 months after delivery. Regulations require grain to be in uniform lots of 50 tons or more (100 tons in some countries), or 10 tons in the case of durum.

Generally, grain from one country can be bought by the intervention agency of another country, but the intervention prices are supposed to be at such a level that the costs of transportation would make this an uneconomical undertaking. However, before the French franc was officially devalued in 1969, it was possible to buy French grain with francs purchased at below official par value and sell it to other member countries at prices below their intervention prices. As a result, French grain purchased with devalued francs was sold to the intervention agencies in other member countries, causing a shortage of storage space in these countries. Because of this development, regulations were passed to limit the obligation of other member countries to purchase French grain. This precedent could be used again to prevent surpluses in one member country from moving in excessive volume to other member states.

The intervention price is based upon the EC standards for grain set by regulation. A schedule of premiums and discounts is applied to any grain that exceeds or falls below the standard. However, grain must meet a minimum standard or it may not be accepted by the intervention agency. Because of local conditions, the minimum standard varies considerably from country to country. (See Standards for Grain," page 8.)

Further determinants of the intervention price are the location of the intervention center to which the seller chooses to deliver his grain and the actual point of intervention as determined by the intervention agency. The regulations specify that the seller has a choice of three centers to which he may deliver; if the seller delivers to the center he selected, he receives, on delivery, an intervention price based on the one in effect for that center. However, if the intervention agency determines that the seller's warehouse will be the point of intervention, the agency will deduct the cost of freight from the seller's warehouse to the center originally selected by the seller. If the point of actual intervention is neither the seller's chosen center nor his warehouse, the agency will pay the cost of freight from the center selected by the seller to the point of actual delivery and deduct the freight from the seller's warehouse to the point selected by the seller.

Special Intervention (Intervention B)

Local intervention agencies are authorized by regulation to take special measures to support prices when market prices fall and do not recover or when storage is limited due to excess supplies. Although the authority contained in this regulation is very broad, following are some examples of uses already made:

- During the 1967-68 marketing year, France was authorized to have private traders purchase grain at a price slightly above the intervention price and transport this grain to areas in France where storage space was available. This allowed the French intervention agency to avoid excess purchases during the marketing year. At the end of the year, any grain not sold by these private traders was purchased by the French intervention agency at the full intervention price.

- At the beginning of the 1969-70 marketing year, the Italian intervention agency was authorized to move excess intervention stocks of soft wheat from northern and central Italy to southern Italy and place it in private storage at EC expense. This was done to release storage space for the 1969 harvest.

- At the end of the 1968-69 marketing year, when the intervention agency in Germany already held large stocks of grain from the previous crop year, the 1969 harvest was expected to be one of the largest in German history, and large stocks of French grain purchased with devalued French francs were on the German market. At first, the German Government acquired as much storage space as possible, including some in nonmember countries, but this did not fully stabilize the situation. In order to strengthen prices, private holders were guaranteed the intervention price plus a storage fee if they held their stocks of grain off the market until excess stocks could be either exported or consumed. The agency also guaranteed the price in effect for this grain prior to revaluation of the Deutsche mark.

Year-End Compensation

An end-of-year premium is authorized by regulation for grain held in commercial storage from the previous crop year only. This premium is paid so that private holders will not sell their grain to the intervention agency during the last months of the old marketing year and overload storage space needed for the new harvest.

This premium is generally authorized only for stocks of specified grains held by commercial grain merchants, processors, and millers. For merchants, the minimum quantity eligible is 75 tons of corn or soft wheat; for processors, 20 tons of soft wheat or corn; and for millers, 10 tons of soft wheat or millable rye.

Regulations provide that the year-end compensation for each grain may not exceed the difference between the threshold price for the last month of a particular crop year and the threshold price for the first month of the ensuing crop year. The amount can be somewhat less in some years, depending upon market conditions, and in some instances is paid only on grain moved into export or only for domestic use.

The year-end payments for the last 3 years follow:

Grain	1967-68	1968-69	1969-70
	U.S. dol. per metric ton	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*
Soft wheat	9.50	9.50	9.50
Corn	1.69	5.00	6.00
Barley	[1] [2] 2.81	[2] 5.00	[1] 6.00
Durum	[1] 10.50	[1] 10.50	[1] 10.50
Rye (millable only)	[3] 3.90	[3] 7.65	[3] 7.65

[1] For export only. [2] The payment for the 1967 and 1968 crops is \$6.00 if the grain is exported in the period July 1 - December 31, 1970. [3] For domestic use only.

Sales of Intervention Stocks

When the intervention agency in a member state sells grain, it must do so by public tender. The agency's announcement specifies whether the sale is for the internal or export market. Recent regulations also enable the agency to specify the use to which the grain is put. For example, the agencies in France or Germany at the end of the 1969-70 marketing year allowed sales of intervention stocks of wheat to be used only for human consumption within the EC.

For the internal market, sales generally must be a minimum of 5 tons in the case of durum wheat and 50 tons of all other grains. Since September 29, 1970, the selling price for grain held by the local intervention agencies has been determined by local market conditions. Prior to that date, selling prices had to be at least \$1.50 above local intervention prices for each respective grain at the intervention center, except for wheat denatured by the agency. Denatured wheat had to be priced at least \$0.50 above the local intervention price for barley.

When grain is sold to the export market, the quantity must be more than 500 tons. The price is determined and the destination is approved by the EC Commission. Export sales may also be by public auction. In this case, the Commission will determine the minimum price, and the maximum quantity is 10,000 tons.

In order to guarantee that grain is not sold in the EC after it has been purchased for export, the buyer is required to deposit \$10 per metric ton with the intervention agency. This deposit is refunded after the buyer has provided proof that the grain has been either exported or rendered unfit for human or animal consumption.

French Intervention Prices

On August 9, 1969, France devalued the franc by 12.5 percent but did not change its intervention prices to correspond with the new lower value of the franc or to maintain the value in terms of the official unit of account in the EC, which has the same value as the U.S. dollar. This meant that French intervention prices were not increased in terms of francs, but in terms of U.S. dollars they were reduced 12.5 percent during the 1969-70 crop year. In the 1970-71 crop year the French franc intervention prices were increased to make up part of this difference, but the increases were not uniform. In addition, the taxes applied to the French producer were increased to reduce the full effect of the price increase. (See table 3.)

Table 3.–Changes in French beginning-of-season intervention prices since devaluation[1]

Grain	1969-1970			1970-71			Increase in net return, 1970-71 over 1969-70
	Intervention price	Producer tax	Net return	Intervention price	Producer tax	Net return	
	U.S. dol. per metric ton	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*Percent*
Wheat:							
High	83.54	2.92	80.62	90.39	3.33	87.06	+8.00
Low	81.25	2.92	78.33	83.66	3.33	80.33	+2.55
Barley:							
High	76.78	2.61	74.17	81.09	3.31	77.78	+4.87
Low	70.45	2.61	67.84	73.26	3.31	69.95	+3.11
Corn	70.45	0.97	69.48	73.65	2.03	71.65	+3.12
Rye:							
High	78.22	1.71	76.51	82.64	2.41	80.23	+4.86
Low	71.10	1.71	69.39	73.94	2.41	71.53	+3.08
Durum:							
High	104.44	2.61	101.83	107.57	3.11	104.46	+2.58
Low	99.65	2.61	97.04	102.64	3.11	99.53	+2.56

[1] One franc = $0.18004, official exchange rate, 1970.

Production Subsidies for the Starch and Brewing Industries

The EC subsidizes the starch and brewing industries by paying a subsidy to the processors of wheat or corn so that the high cost of EC grain will not prevent processors from being competitive in world markets.

This subsidy is equal to the threshold price during the month in which the grain is processed, less $68.00 per metric ton, which is the estimated cost of wheat and corn on the world market. The subsidy increases throughout the year as the threshold price increases. For 1969-70 and 1970-71, the subsidy is $36.40 per metric ton for soft wheat and $25.69 per metric ton for corn during the first month of the new marketing year.

Prices and subsidies for corn on August 1, 1969, and May 1, 1970, in U.S. dollars per metric ton, were as follows:

	August 1	May 1
Threshold price for corn	93.69	99.69
Estimated world corn market price	68.00	68.00
Processor subsidy	25.69	31.69

Durum Wheat Subsidy

The EC has authorized a production subsidy for durum wheat. This subsidy is equal to the difference between the lowest intervention price and a guaranteed market price of $145.00 per metric ton. It is paid through the member countries to the individual producers.

The local intervention agency pays the subsidy directly to durum producers on the basis of the actual amount of durum wheat produced, as verified by government field technicians.

Since the 1969 devaluation of the French franc, the French durum wheat subsidy has been reduced by the same percentage as the durum wheat intervention price. Subsidies for 1968-69 through 1970-71, in U.S. dollars per metric ton, follow:

	1967-68	1968-69	1969-70	1970-71
French	34.76	34.76	30.89	31.81
Other EC	34.76	34.76	34.76	34.76

STANDARDS FOR GRAIN

There are two relevant grade standards for EC grain. One is the EC standard grade, and the other is the minimum standard for intervention.

The EC standard grade is the one by which third country grain is judged and quality coefficients applying to such grain are set. (See "The C.I.F. Price Adjustment," page 12.) Also, grain must meet this grade before it is eligible for the full intervention price. The EC standard for wheat is roughly comparable to the specifications of U.S. grade No. 2 wheat except that U.S. No. 2 must have 13.5 percent or less moisture or it is termed "tough wheat." The EC standard for wheat is 16 percent maximum moisture, and a premium is paid for wheat with moisture of 15.5 percent or less.

The EC standard for corn is roughly equal to U.S. No. 2, except that there is no minimum test weight in the EC standard. The EC durum wheat standard is between U.S. grades No. 1 and 2, except that the EC allows for up to 20 percent degenerate durum kernels. The EC standard for rye is roughly equal to U.S. grade No. 1. The oats standard is between U.S. grades No. 1 and 2. The EC standard for sorghum is the same as U.S. No. 2, except maximum moisture is 15 percent instead of 14 percent. The EC standard for barley has a higher test weight than U.S. No. 1, but other grade specifications are comparable to U.S. No. 2.

The other EC standard of importance is the minimum standard for intervention. This standard is for all EC grain that is eligible for intervention, and therefore does not include oats or sorghum. The EC minimum standard for intervention (except the percentage of moisture, which varies from country to country) is approximately equal to the grade that would be eligible for loan in the United States.

The price paid at the intervention center is subject to two adjustments. The first is based upon a combination of two factors, moisture and test weight. The second is based upon impurities and damaged grain.

The discounts or premiums are given as a percentage of the August 1 intervention price for the particular center to which the grain is sold even though grain may be sold at a later date when the intervention price is higher. In France the discount is expressed as a fixed amount in French francs per metric ton.

In the first adjustment, a premium or discount may be applied for either moisture or test weight. However, should there be a premium for both test weight and moisture, or a discount on both, only the larger of the two would be added or subtracted. For example, should a French seller deliver wheat to the intervention agency that

Table 4.—EC standard specifications for grain (EC Commission Regulation 768/69)

Grain	Maximum moisture	Minimum test weight	Total percent of elements that are not grain of unobjectional quality	Germinated grain	Broken grain	Other grain & damaged kernels	Non-grain impurities	Heat damage	Ergot	Weed seed
Standard grades:	*Percent*	*Lb. per bu.*	*Maximum percent*	*Maximum percent*	*Maximum percent*	*Maximum percent*	*Maximum percent*	*Maximum percent*	*Maximum percent*	*Maximum percent*
Soft wheat . . .	16.0	58.275	5.0	1.0	2.0	1.5	0.5	–	–	–
Rye	16.0	55.17	5.0	1.0	2.0	1.5	0.5	–	–	–
Barley	16.0	52.06	4.0	1.0		2.0	1.0	–	–	–
Corn	15.0	–	8.0	1.0	2.0	4.0	1.0	–	–	–
Durum	–	60.6	[1] 20.0	.5	2.0	1.5	.5	–	–	–
Oats	16.0	35.74	3.0	–	–	2.0	1.0	–	–	–
Sorghum	15.0	U.S. Yellow Sorghum No. 2								
Minimum standards for intervention (Reg. 1,414/69):										
Soft wheat . . .	14-25	[2] 54.4-56	15.0	8.0	5.0	6.0	4.0	1.0	0.05	0.10
Rye	14-25	51.3	15.0	8.0	–	6.0	4.0	–	0.05	0.10
Corn	14-25	–	15.0	10.0	10.0	6.0	4.0	–	–	–
Barley	14-25	[3] 46.6	15.0	13.0	–	[5] 6.0	4.0	[6] 15.0	–	–
Durum	14-25	58.3	[4] 60.0	8.0	5.0	6.0	4.0	1.0	0.05	0.10

[1] Percent of degenerated or partly degenerated durum kernels and ordinary wheat kernels, of which ordinary wheat kernels may be no more than 4 percent. [2] Depending upon region. [3] Winter barley may be 44.3 lb. per bu. [4] Fifty percent of which maybe degenerated durum, and 7 percent ordinary wheat. [5] Includes insect-damaged grain. [6] Sun damage.

Table 5.—EC grain intervention-price premiums or discounts for test weight, 1970-71

Kilograms per hectoliter	Pounds per bushel	Percent of basic intervention price		Kilograms per hectoliter	Pounds per bushel	Percent of basic intervention price	
		Durum	Soft wheat			Rye	Bailey
83+.	64.5+	+1.3	--	69-70	53.6-54.4	-0.75	--
82-83	63.7-64.5	+1.1	--	68-69	52.8-53.6	-1.25	--
81-82	62.9-63.7	+0.9	--	67-68	52.1-52.8	-2.0	--
80-81	62.2-62.9	+0.6	+1.3	66-67	51.3-52.1	-3.0	--
79-80	61.4-62.2	+0.3	+1.1	65-66	50.5-51.3	--	--
78-79	60.6-61.4	--	+0.9	64-65	49.7-50.5	--	--
77-78	59.8-60.6	--	+0.6	63-64	49.0-49.7	--	--
76-77	59.1-59.8	-0.75	+0.3	62-63	48.2-49.0	--	--
75-76	58.3-59.1	-1.25	--	61-62	47.4-48.2	--	-0.5
74-75	57.5-58.3	--	--	60-61	46.6-47.4	--	-1.0
73-74	56.7-57.5	--	-0.75	59-60	45.9-46.6	--	-1.5
72-73	55.9-56.7	--	-1.25	58-59	45.1-45.9	--	-2.0
71-72	55.2-55.9	--	-2.0	57-58	44.3-45	--	-2.5
70-71	54.4-55.2	--	-3.0	--	--	--	--

would be eligible for a 1.5-franc premium for test weight and a 4.0-franc premium for low moisture, only the 4.0-franc premium would be added to the price. (See tables 5 and 6.)

The second adjustment is for impurities and damaged grain. In this adjustment only discounts are applied; and more than one discount can be applied, unlike in the first adjustment where two discounts or premiums could not be applied.

Nongrain impurities, should these exceed 0.5 percent for wheat, durum, or rye and 1.0 percent for corn and barley, are subject to a discount of 0.1 percent of the August intervention price for each 0.1 percent of the excess.

Discounts are made for impurities in wheat and rye—broken grain, unspecified grain, or germinated grain. When germinated grains exceed 2.5 percent and foreign grain or brokens exceed 4 percent, a discount of 0.05 percent is applied to the August intervention price for each 0.1 percent of the excess. For corn, when unspecified grain or brokens exceed 4 percent, a discount of 0.05 percent is applied for each 0.1 percent excess.

Durum discounts.—For durum wheat, when impurities consisting of unspecified grain or soft wheat exceed 4 percent and germinated kernels exceed 2.5 percent, a discount of 0.05 percent is applied for each 0.1 percent excess. If degenerate durum grain exceeds 20 percent but not 40 percent, a discount of 0.2 percent is applied for each 1

Table 6.—EC grain intervention-price premiums or discounts for moisture, 1970-71

Percentage moisture	Premium or discount (percent of basic intervention price)				
	Wheat	Durum	Rye	Barley	Corn
12.5 or less	+ 2.0	+ 3.0	+ 1.5	+ 1.5	+ 0.5
13	+ 2.0	+ 2.5	+ 1.5	+ 1.5	+ 0.5
14	+ 1.5	+ 1.5	+ 1.5	+ 1.5	+ 0.5
15	+ 0.5	+ 0.5	+ 0.5	+ 0.5	+ 0.5
16	--	--	--	--	- 0.8
17	- 2.8	- 2.8	- 2.8	- 2.8	- 3.1
18	- 4.6	- 4.2	- 4.8	- 4.8	- 5.5
19	- 5.8	- 5.4	- 6.1	- 6.2	- 6.7
20	- 7.0	- 6.6	- 7.3	- 7.4	- 8.2
21	- 8.7	- 8.2	- 9.0	- 9.1	- 9.9
22	-10.3	- 9.8	-10.7	-10.8	-11.6
23	-11.9	-11.3	-12.4	-12.5	-13.3
24	-13.6	-12.9	-14.1	-14.2	-15.0

percent excess or fraction thereof. If this percentage exceeds 40 percent, a discount of 0.3 percent for each 1 percent excess or fraction thereof is applied.

In addition, durum wheat of certain varieties is discounted as follows: Grifoni, $2.40 per metric ton; Marzouli, Timile, and Neri di Sicilia, $12.00 per metric ton.

Rye.—The intervention agency grants a special premium of up to $1.50 per metric ton for rye if it is of milling quality.

DENATURING OF GRAIN

In order to reduce surpluses of milling qualities of soft wheat and rye and to stabilize market prices, the EC pays premiums (see table 7) to qualified holders of such grain to divert it into use for animal feed by rendering the grain unfit for human consumption.The intervention agency may also denature the grains that are in its own stocks.

The denaturing premium.—The denaturing premium consists of two parts: The first is used to cover the technical costs of denaturing, and the second is a payment to equalize the difference between foodgrains and feedgrains.

Before the CAP, the payment to make up the difference between the cost of foodgrains and feedgrains was determined by local market differences in each country. After unification, when all prices were under the CAP, one payment was standardized for the whole Community.

The payment to cover the technical costs of rendering grain unfit for human consumption depends upon the method used. If grain is denatured by either dye or fish oil, the payment is $3.75 per metric ton. If grain is denatured by mixing with other grain, the payment is $2.75 per metric ton.

Adjustments in the premium.—The premium paid for denaturing millable wheat and rye in Italy is increased to equal the reduction in the barley levy that is applied to imported barley. This increase, which is currently $7.50 per metric ton, will be abolished in 1972, when the Italian levy reduction will be abolished. The increase is made so that denatured grain in Italy will be able to sell at the same level as imported feedgrains.

The denaturing premium in France has been reduced in terms of dollars (EC units of account) because the franc was devalued in August 1969. The 1969-70 denaturing premiums were therefore reduced 12.5 percent in terms of dollars. In the 1970-71 crop year the premium was increased by 3.2 percent.

Prior to the 1970-71 crop year, wheat with a high test weight was paid an additional premium of up to $2.00 per metric ton. This premium was discontinued on June 1, 1970.

The premium may be changed at any time during the crop year if the Commission feels that different premiums are in order because of the market situation.

Table 7.—EC denaturing premiums for wheat

Month	By chemical means[1]				By admixture[2]			
	1967-68	1968-69	1969-70	1970-71	1967-68	1968-69	1969-70	1970-71
	U.S. dol. per metric ton	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*
July	13.55	–	–	–	12.65	–	–	–
August	13.55	14.02	18.52	15.52	12.65	12.02	17.52	14.52
September . .	14.50	14.97	19.47	16.47	13.60	12.97	18.47	15.47
October . . .	14.70	15.17	19.67	16.67	13.80	13.17	18.67	15.67
November . .	14.90	15.37	19.87	16.87	14.00	13.37	18.87	15.87
December. . .	15.10	15.57	20.07	17.07	14.20	13.57	19.07	16.07
January . . .	15.30	16.27	20.27	17.27	14.40	14.27	19.27	16.27
February . . .	15.50	16.47	20.47	17.27	14.60	14.47	19.47	16.27
March	15.70	16.67	20.67	17.27	14.80	14.67	19.67	16.27
April	15.90	18.87	20.87	17.27	15.00	16.87	19.87	16.27
May	16.10	19.07	21.07	17.27	15.20	17.07	20.07	16.27
June	16.10	19.07	21.07	17.27	15.20	17.07	20.07	16.27
July	16.10	19.07	21.07	17.27	15.20	17.07	20.07	16.27

[1] The payment for the technical costs was $1.90 per metric ton from 1964 through July 1968, $3.25 per metric ton from August 1968 through December 1969, and $3.75 per metric ton from January 1969 onward. [2] The payment for the technical costs was $1.00 per metric ton from July 1967 through July 1968, $1.25 per metric ton from August 1968 through December 1969, $1.75 from January 1969 through July 1969, and $2.75 per metric ton from August 1969 onward.

The minimum standards for grain for which the full premium is applicable are given in the table below. However, member countries can pay a denaturing premium on low quality grain during a crop year of poor-quality production by applying for special regulations. In the 1968-69 marketing year, Germany paid a premium that was reduced $10.00 per metric ton for grain that was 50 percent damaged.

Before a denaturing premium is paid, grain must meet the following standards:

Grain	Minimum test weight	Maximum moisture	Maximum total impurities
	Lb. per bu.	*Percent*	*Percent*
Wheat	[1] 54.5 - 56.7	14 - 18	[2] 10
Rye	51.3	18	[2] 10

[1] Depending upon location.
[2] Within this limit, germinated grain may not represent over 8 percent; nongrain impurities, 3 percent; other grain, 3 percent; and broken grain, 5 percent.

THE GRAIN IMPORT SYSTEM

The EC insulates its high domestic prices from both the lower levels and the wide fluctuations of world prices through the use of minimum import prices, known as threshold prices. As long as the world price is below the threshold price, an import tax, or levy, equaling the difference, is applied. In order to enforce this levy, no imports may enter the EC without an import certificate, on which the amount of levy due is indicated.

The Threshold Price

The threshold price is set for only a single point, i.e., Rotterdam, the major point of import. In practice, its level is determined so as to be consistent with, as well as to help achieve, the various desired internal price levels. It is based upon "standard quality" EC grain.[1] For each respective grain, a separate threshold price is established, and it is from this threshold price that the levy is calculated. This levy is then applied to imports from all nonmember countries. Being based only in Rotterdam, the threshold price and, therefore, the levy do not take into account the difference in costs at other ports. Since Rotterdam is one of the most efficient ports in the world, its c.i.f. (import) prices are likely to be among the lowest, thus tending to maximize the levy. Even though actual c.i.f. prices to other EC ports are usually higher, the levy is the same at all ports.

Regulations provide that the threshold prices for each crop year should be announced by the Commission before March 15 preceding each crop year beginning August 1.

The threshold price increases at monthly intervals during the crop year to cover costs of storage and insurance on the domestic market. Table 8 shows the threshold prices for the first 3 years of the CAP, which began July 1, 1967, and, in order to illustrate the seasonal cycle, also shows the price for each month of the 1969-70 and 1970-71 crop years.

The C.I.F. or World Market Price

In order to determine the levy, the Commission must first determine the lowest world c.i.f. price[2] for each grain. This is done by considering all world market offers of which the Commission has knowledge either through its

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[1] The threshold price for grain not normally grown in the EC is determined by the Commission. For example, the threshold price for sorghum is based upon U.S. No. 3 Yellow sorghum. The definition of "standard quality" is given in "EC Standards for Grain," page 8.

[2] When determining the c.i.f. prices, the Commission may exclude certain offers in cases where:

Grain is not of fair average quality; the offer relates to small quantities not repersentative of market conditions; the general price development or the information available to the Commission gives rise to the belief that the offer price in question is not truly representative of that particular type and origin of grain; the offers give the seller an option concerning quality or origin.

Table 8.—EC grain threshold prices, beginning of season

Month and year	Grain						
	Corn	Barley	Wheat other than durum	Rye	Sorghum	Durum	Oats
1967/68, August . . .	88.38	89.00	104.38	91.88	85.44	123.13	83.66
1968/69, August . . .	92.69	92.19	104.38	95.63	89.00	123.13	86.66
1969/70 and 1970/71:							
August . . .	93.69	93.19	104.38	95.63	89.93	123.13	87.60
September .	93.69	93.19	105.33	96.48	89.93	124.18	87.60
October . .	94.44	93.94	106.28	97.33	90.68	125.25	88.35
November. .	95.19	94.69	107.23	98.18	91.43	126.28	89.10
December. .	95.94	95.44	108.18	99.03	92.18	127.33	89.85
January . . .	96.69	96.19	109.13	99.88	92.93	128.38	90.60
February . .	97.44	96.94	110.08	100.73	93.68	129.43	91.35
March	98.19	97.69	111.03	101.58	94.43	130.48	92.10
April	98.94	98.44	111.98	102.43	95.18	131.53	92.85
May	99.69	99.19	112.93	103.28	95.93	132.58	93.60
June	99.69	99.19	113.88	103.28	95.93	133.63	93.60
July	99.69	99.19	113.88	103.28	95.93	133.63	93.60

own sources and those of the member states or from information gathered from the grain exchanges important in world trade. An offer which is not for Rotterdam is adjusted by current ocean freight rates so that it represents an equivalent Rotterdam c.i.f. price since this is the only basis for levy calculation.

The Commission uses c.i.f. prices quoted for current-month delivery if possible. If these prices are not available, the prices for delivery in future months are used. Should neither be available, the price last used is used again. For example, the Commission may use a January-delivery c.i.f. price in February when prices for delivery in February or later are not available.

It may also be decided not to change the c.i.f. price if available world c.i.f. prices, due to drastic changes in freight rates for example, could lead to sudden and considerable changes in the levies. The same procedure is used to determine the lowest offers for future delivery, since these are needed to determine the current premiums or discounts applicable on levies which may be fixed in advance.

The C.I.F. Price Adjustment

Before a c.i.f. price is used to determine the levy, it is adjusted by a quality coefficient (see table 9) which takes into account the difference in quality and world market value between the different varieties of a particular grain and the EC standard for this grain. The coefficients are fixed, as are the EC standards.

Since one levy applies to all types, qualities, and origins of each grain, the coefficients are used to help distinguish between, for example, wheats of different natural quality so that the lowest quality or lowest priced wheat will not always set the levy. Only when a wheat is selling at the lowest adjusted price relative to all other adjusted prices will it set the levy.

Differences in quality among the different types and origins of grain vary from year to year, and thus, at least at times, cause the quality coefficients to be unrepresentative of the true differences in grain values. Should a particular type of wheat be selling at a low price on world markets only because of quality characteristics not normal for that type, it might become the wheat used to set the wheat levy. This would result in a higher levy than would be the case if this wheat were of sufficient quality to command a price relative to other types, reflecting the value difference that the EC had fixed for it. Regulations provide that the coefficients be adjusted when needed, but this authority has seldom been used.

Table 9.— EC quality coefficients applied to c.i.f. prices to determine adjusted c.i.f. price and import levy[1]

Origin	Type and grade	Coefficient
		U.S. dol. per metric ton
SOFT WHEAT:		
United States	Red Winter Garlicky 1 and 2	-2.50
	Red Winter 1 and 2, Western White 2, Soft White 2	-3.75
	Hard Winter/Dark Hard Winter 1 and 2, 12.4 percent	-9.00
	Hard Winter/Dark Hard Winter 1 and 2, 12.5-12.9 percent	-9.75
	Hard Winter/Dark Hard Winter 1 and 2, 13.0-13.4 percent; Northern Spring 1 and 2; Dark Northern Spring 3; Red Spring 1 and 2	-10.50
	Hard Winter/Dark Hard Winter 1 and 2, 13.5-13.9 percent	-11.25
	Hard Winter/Dark Hard Winter 1 and 2, 14+ percent; Dark Northern Spring 1 and 2	-12.00
Canada	Manitoba 1	-12.50
	Manitoba 2	-12.00
	Manitoba 3	-10.50
	Manitoba 4	-9.00
	Canada 5	-6.00
Argentina	--	-9.00
Australia	FAQ, NSW Northern Hard	-5.75
	Western	-6.75
	Semi Hard 2, South Hard	-9.00
	Prime Hard, 13 percent	-10.50
United Kingdom, Sweden	--	0
Bulgaria	--	-2.25
Romania	--	-3.75
USSR	Type 441	-9.00
	Type 431	-10.50
	Type 121 (SKS 14)	-12.50
DURUM:		
Canada	Canada Western Amber Durum 1	-3.25
	Canada Western Amber Durum 2	-2.75
	Canada Western Amber Durum 3, 4	0
	Canada Western Amber Durum Extra 4	+2.00
United States	Hard Amber Durum 1	0
	Hard Amber Durum 2	+1.00
	Hard Amber Durum 3	+2.00
Argentina, Tunisia, Israel	--	0
Morocco	--	+5.00
Iraq, Syria	FAQ	+8.00
	Italiana	+2.00
Turkey	Anatolien	+8.00
	Thrazien	+6.00
Greece	AA	0
	A1	+2.00
	A2	+4.00
	A3	+6.00
	Not specified	+3.00
RYE:		
United States	USA 2, Plump	0
	USA 3	+.50
Canada	Western 1, 2	0
	Western 3	+1.50
Argentina, Denmark, USSR, Turkey	--	0
BARLEY:		
United States	USA 2, Western 1, 2	0
	USA 3	+1.25
	USA 4	+2.50
	USA 5	+4.00
Canada	Western Two Row 1, 2	0
	Feed 1, 2	+1.25
	Feed 3	+2.00
Argentina	Plata 62-65	0
	Plata 65-67	-.75
	Plata 67-69	-1.25
Australia	Chevalier 5	0
	Chevalier 3, 4	-1.25
	Beecher	-.75
	Queensland	-1.25
Denmark, Norway, United Kingdom, Sweden	--	0
Algeria, Tunisia, Morocco	--	+3.00
Turkey	White	+2.00
	Bigarrée	+3.00
Iraq	--	+4.00
Syria	Bigarrée less than 64	+4.00
	White, Bigarrée 64-65	+2.50
USSR	Baltikum	0
	Schwarzmeer	-.75
OATS:		
Canada, United Kingdom, USSR, Argentina, Spain, Australia, Denmark, Sweden	--	0
United States	White 1, 2, 38-40 lb.	0
	White 1, 2, 36 lb.	+1.00
CORN:		
United States	Yellow 1, 2; White 1, 2	0
	Yellow 3, White 3	+.50
	Yellow 4, White 4	+1.00
	Yellow 5, White 5	+2.00
Argentina	Yellow	-1.25
South Africa	Yellow	-1.25
	White	+1.25
Rhodesia/Nyasaland	Yellow	-1.25
	White	+1.25
Brazil, Paraguay, Mexico	--	+1.25
Uruguay, Angola, Kenya, Morocco, Burma, India, Indonesia, Bulgaria, Romania, USSR, Yugoslavia	--	0
SORGHUM:		
United States, Argentina, Mexico, Mexico	--	0
MILO:		
Argentina, Australia	--	0
BUCKWHEAT:		
United States, Poland, South Africa	--	0
Canada	--	+2.00
Brazil	--	+5.00

[1] The Commission may apply coefficients of equivalence which deviate from those listed above if the value differences between the individual grain qualities offered do not correspond to the differences in value underlying the determination of the coefficients of equivalence. In this case the adjusted c.i.f. price is determined by means of coefficients of equivalence which correspond to the value of the different qualities of grain offered at that time.

If grain being offered in the world market is not listed above, the Commission may apply coefficients derived from the listed coefficients. It must take into account the price differences between listed and unlisted grain qualities as well as the qualities of these different grains.

These provisions may apply to the same coefficient for only 21 days. The list of coefficients then must be revised. However, this revision does not affect the validity of the coefficients temporarily applied by the Commission.

The following example, based on actual prices for May delivery as of May 13, 1970, illustrates the use of three different coefficients to determine the lowest adjusted c.i.f. price. In the example, Hard Winter Ordinary would set the levy if the prices shown were the only valid offers.

Wheat	Soft Red Wheat	Hard Winter Ordinary	Dark Northern Spring, 15%
	U.S. dol. per metric ton	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*
C.i.f. offer price	63.00	61.80	72.25
Quality coefficient	-3.75	-9.00	-12.00
Adjusted c.i.f. price	59.25	52.80	60.25

In a further example, using corn prices of January 20, 1970, where one coefficient is positive and the other negative, LaPlata corn would set the levy.

	U.S. Yellow 3	LaPlata
	U.S. dol. per metric ton	*U.S. dol. per metric ton*
C.i.f. offer price	62.90	64.25
Quality coefficient	+.50	-1.25
Adjusted c.i.f. price	63.40	63.00

Levy Changes

At the close of business each day, after the c.i.f. offer prices have been adjusted by the quality coefficients, the lowest resulting price is used to determine the levy for the next day. If there is less than a 60-cent difference from the adjusted c.i.f. price that set the levy at the start of the current day, no change is made in the levy for the next day.

The following example illustrates a change in levy for corn, using actual prices:

	January 20, 1970	January 21, 1970
	U.S. dol. per metric ton	*U.S. dol. per metric ton*
Threshold price	96.69	96.69
Adjusted c.i.f. price	61.75	63.00
Levy	34.94	33.69

The levy must be changed whenever the threshold and/or the adjusted c.i.f. price changes, except in rare instances when a change in one happens to exactly offset an equal and opposing change in the other on the same day. The following example, using the actual price of millet, shows the change in levy resulting from a seasonal rise in the threshold price:

	April 30, 1970	May 1, 1970
	U.S. dol. per metric ton	*U.S. dol. per metric ton*
Threshold price	93.78	94.53
Adjusted c.i.f. price	51.50	51.50
Levy	42.28	43.03

A further example, using actual wheat prices, shows how, despite changes in both the threshold and c.i.f. prices, the levy remains unchanged:

	April 30, 1970	May 1, 1970
	U.S. dol. per metric ton	*U.S. dol. per metric ton*
Threshold price	111.98	112.93
Adjusted c.i.f. price	50.25	51.20
Levy	61.73	61.73

Advance Fixing of the Levy

An importer has a choice of either paying the levy in effect on the day his grain enters the customs control of the EC or fixing the amount of the levy in advance for future delivery at a predetermined level. A levy fixed in advance helps reduce the risk of loss due to price fluctuation. However, this "hedge" can also be used for speculative purposes, much the same as in transactions on a futures market.

The prefixed levy is determined by three factors.

The first is the difference between the threshold price when the levy is purchased and the threshold price when the grain is to be delivered. The second factor is the difference between the lowest adjusted c.i.f. price for the month in which the levy is purchased and the lowest adjusted c.i.f. price for the month of expected delivery as of the day the levy is purchased. This difference is expressed as an amount which is either added to or subtracted from the levy and is called the premium. Should there be less than a 12.5-cent difference between the current and future adjusted c.i.f. prices, no premium is applied. The premium is calculated daily from changes in the difference between current-month and forward c.i.f. prices. The third factor is a special additional increment in the levy, which is expressed as an addition to the premium. It is imposed when a serious disturbance, in the form of drastic price changes on the world market, threatens the EC market. These additions to the premium can be as large as double the difference between the present-month and forward-month c.i.f. prices.

Following is an example, using actual sorghum prices as of February 1, 1970, showing how the premium is determined:

	Month of delivery			
	February	March	April	May
	U.S. dol. per metric ton	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*
C.i.f. price	57.25	57.25	57.25	57.25
Forward c.i.f. price	--	54.00	51.50	51.50
Premium	0	3.25	5.75	5.75

A further example, using the same prices and premiums shown above, indicates how the actual forward levy for sorghum was fixed on February 1, 1970.

	Month of delivery			
	February	March	April	May
	U.S. dol. per metric ton	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*	*U.S. dol. per metric ton*
Threshold price	93.68	94.43	95.18	95.93
Adjusted c.i.f. price	57.25	57.25	57.25	57.25
Levy	36.43	37.18	37.93	38.68
Premium	--	3.25	5.75	5.75
Forward levy	--	40.43	43.68	44.43

If import does not take place in the month indicated by the buyer, the levy is determined by the difference between the threshold price in the month of actual import and either the adjusted c.i.f. price valid on the day of import or the one used in the calculation of the original levy, whichever is lower.

The Import Certificate

Before grain can be imported, the EC importer must have an import certificate or license. This license may be purchased at the time delivery is made or it may be bought in advance. In either case, a deposit of 50 cents per metric ton is required. In addition, when the importer buys an import certificate for future delivery, as he must when he prefixes the levy, he must place a deposit of $3 per metric ton with the Commission.

The import certificate or license authorizes the import of no more than 5 percent more or 7 percent less than the amount specified on the certificate.

The certificate is generally valid during the month of issue and 3 additional months. However, it is valid for 4 additional months when it deals with lots of 500 tons or more of grain coming from all countries except those in Europe, North America, and countries that have Mediterranean ports, or when it deals with lots of 500 tons or less coming from all countries except those of Europe and those that have Mediterranean ports.

The import certificate must include the name of the applicant, a description of the product, and the quantity of the product in metric tons; it also must indicate the last day of validity. The country from which the grain has been shipped must be indicated by the importer; the latest this can be done is at the time of importation. In addition, if the levy is fixed in advance, the certificate must also show the intended month of import and the amount of the levy for each month in which the certificate is valid if the threshold price is known. If the threshold price is not known, the certificate should then indicate that the levy will be determined when the Commission determines the threshold prices for the new crop year and the amount of the premium applicable for each month of validity. At the present time certificates are issued by individual member countries. A new certificate for the entire EC will be in effect as of January 1971, and certificates issued in one country will be valid in all countries.

Should an importer not use the certificate, he forfeits 50 cents per metric ton if the levy is not fixed in advance. If it is fixed in advance, he forfeits his $3.00-per-metric-ton deposit.

Exceptions to Levies and Threshold Prices

On August 9, 1969, France devalued its currency and did not change the local currency amount of its internal support prices. In order to prevent disturbances in international trade, the levies applied on France's third-country imports were reduced, and imports from other EC countries were subsidized by an equal amount. On August 1, 1970, the import subsidies and reduced levies were lowered in keeping with increases in the French intervention prices. (See table 3.) This same amount is subtracted from the export restitution on grain shipped to third countries, and is also applied as a French Government tax upon exports to other member countries. French import subsidies and export taxes, in dollars per metric ton, are shown below:

	1969-70	1970-71
Soft wheat	10.53	8.00
Denatured wheat	9.38	6.37
Durum wheat	12.46	9.47
Oats	8.82	6.00
Barley	9.38	6.37
Corn	8.99	5.63
Sorghum	9.05	6.17
Rye	8.89	6.05

Italy, until the end of the 1971-72 grain marketing year, is authorized to reduce the levy on imports by sea of feedgrains by $7.50 per ton; this reduction was greater by $3.13 in 1967-68, $2.50 in 1968-69, and $2.50 in 1969-70. When Italy trades with other EC countries, it is supposed to collect a tax on exports and pay a subsidy on imports equal to this levy reduction.

The levy on durum wheat from Morocco is reduced by 50 cents per ton at all EC points of entry.

Prohibited Actions and Protective Measures

A member state may issue no licenses for imports from nonmembers of the International Grains Arrangement (IGA) if the IGA so requests.

One or all member states or the Commission may take protective measures against prices of grain or imports of grain from one or more third countries. These measures may include total or partial abolition of either the advance fixing of levies or the issuance of import certificates by not accepting new requests or requests which are pending. These rejections can become effective the moment that circumstances warranting them arise.

The following are examples of protective measures that have been taken by the EC:

- When it was not known to what level world wheat export prices would fall in June of 1969, the EC suspended prefixing of wheat levies for a week.
- When world corn prices became unstable as a result of reports concerning the corn blight in the United States in the summer of 1970, the EC limited the advance fixing of feedgrain levies to 15 days; formerly, they could be fixed 4 months in advance (the month of fixing plus 3).

When importation cannot be completed because of a "force majeure,"[3] the deposit is not forfeited and the validity may be extended at the importer's request. When the validity is extended, the levy is adjusted to the threshold price in the actual month of import.

TAX ON VALUE ADDED

By 1972 all EC countries will have instituted a tax called the tax on value added (TVA). This tax is currently in effect only in France, Germany, and the Netherlands. The TVA is applied each time grain is sold within an EC country. That is to say, each time the value of the product is increased, the increased value is taxed. When grain is exported either to another EC country or to a third country, the tax previously paid on that grain, whether by the seller alone or partly by previous owners, is deducted. When grain is imported either from a third country or from another EC country, the TVA is added to the levy-paid c.i.f. value in the case of third-country grain or to the free-at-frontier value of grain sold within the Community.

The TVA rate varies by type of product and country. Unmanufactured products and basic necessities have lower rates applied to them than finished products and luxuries. The TVA on imported grain in each of the three countries currently applying this tax is 7.5 percent, 5.5 percent, and 4 percent in France, Germany, and the Netherlands, respectively.

The TVA on sales by producers is not applied the same way in each of the three countries.

In the Netherlands, a farmer who sells his grain on the open market pays the same TVA as the grain importer, while one who sells to the intervention agency pays no TVA.

In France, the farmer who sells on the open market pays the same TVA as the grain importer, but receives a 2.4-percent rebate to offset the TVA he paid on inputs used in the production of grain; this is done on the assumption that input costs rose when the TVA was instituted. The French farmer who sells to the intervention agency receives the intervention price plus 7.5 percent; however, he must return 5.1 percent as his TVA obligation, leaving his net return at the intervention price plus 2.4 percent.

In Germany, the farmer pays no TVA. Here, the grain buyer pays the farmer an 8-percent premium on the wholesale price (the Government reimburses him for 2.5 percent), and the intervention agency pays the farmer the intervention price plus 8 percent. As in France, this is done to compensate the farmer for the TVA on products used in grain production. Between January 1, 1968, and the 1969 revaluation of Germany's currency, the premium added to the market and intervention prices was 5 percent.

The TVA is an important adjunct to the EC's grain policy. In France and the Netherlands, where the TVA is not applied to intervention agency purchases but is applied to the price of levy-paid imported grain, the TVA may have the effect of widening the margin of protection between imported grain and locally produced grain. In Germany, the method of application allows the government to increase returns to producers beyond what the CAP itself would bring.

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[3] A "force majeure" is defined as: War, government ban on imports or exports, restrictions of navigation by act of sovereignty, shipwreck, damage to ship or cargo, strikes, interruption of navigation because of ice or low water, mechanical breakdown.

THE EXPORT SYSTEM

The EC, because of the increased grain production occuring under its high guaranteed prices to producers, has increasingly resorted to exporting its surplus production to world markets. In order for EC grain to be competitive in third-country markets, subsidies called export "restitutions" are granted. These subsidies are determined by the Commission and may not be the same for all destinations. The EC has established five "destination zones" on which the restitutions are based. (See tables 10 and 11.)

Like the import levy, the EC grain export subsidy may be fixed in advance or the handler may choose to take the rate in effect on the day of customs clearance. If it is fixed in advance, the difference between the forward adjusted c.i.f. price (explained in "The Grain Import System," page 11) and the threshold price in the month of export is used to determine the export subsidy. If the export certificate should be used more than 4 months after being fixed, the subsidy is the difference between the adjusted c.i.f. price in the third month after the month of issue and the threshold price in the month of actual export.

The following example illustrates the various changes in a particular subsidy rate for soft wheat over the period of its validity, using hypothetical levels of currently prevailing world prices and forward subsidy and using August as the current month.

	Current	Forward				
	Aug.	Sept.	Oct.	Nov.	March	Aug.
Threshold price	104.38	105.33	106.28	107.23	111.03	104.39
Lowest adjusted c.i.f. price	64.38	63.33	62.28	61.23	61.23	61.23
Premium [1]	0	1.00	2.00	3.00	0	0
Restitution (subsidy)	40.00	42.00	44.00	46.00	49.80	43.15

[1] The premium is equal to the difference between the present and forward c.i.f. prices.

Table 10.—Destination zones for fixing the export restitutions that apply to third-country exports of all grains[1]

ZONE I

a) Libya
United Arab Republic
Israel
Jordan
Lebanon
Syria
Cyprus
Turkey

b) Morocco
Algeria
Tunisia

ZONE II

Poland
U.S.S.R. (Baltic Sea ports)

ZONE III

a) Czechoslovakia
Hungary

ZONE III—Continued

b) Romania
Bulgaria
U.S.S.R. (Black Sea ports)

ZONE IV

a) Mauritania
Senegal
Guinea
Ivory Coast
Dahomey
Togo
Mali
Upper Volta
Niger
Central African Republic
Congo (Brazzaville)
Chad
Gabon
Cameroon
Congo (Kinshasa)
Gambia
Sierra Leone
Ghana
Nigeria
Southwest Africa

ZONE IV—Continued

b) Mexico and Central American countries, including the Greater and Lesser Antilles

c) South America

ZONE V

a) Arabic Peninsula countries
Iraq
Iran
Afghanistan
Pakistan
India (including Bhutan and Sikkhim)
Nepal
Ceylon
Burma
Islands of the Indian Ocean

b) Other countries and territories of Africa

c) Other countries and territories of Asia and Oceania

[1] Countries not included in above zones are specified by name.

Source: EC Regulation No. 694/67.

Table 11.–Actual EC grain export subsidies on April 10, 1970[1]

Grain and destination	Subsidy
	U.S. dollars per metric ton
Wheat, not durum:	
Zone 1	44.00
England	46.00
Australia and Switzerland	41.00
All other nonmember countries	47.00
Wheat denatured after shipment from the EC:	
Switzerland	43.00
All other nonmember countries	48.00
Durum wheat:	
Tunisia	43.00
All other nonmember countries	36.50
Rye, not denatured	42.50
Barley:	
Zone Vc	53.75
Austria, Denmark, and Switzerland	45.50
All other nonmember countries	48.80
Oats	26.94
Corn:	
Austria and Switzerland	30.25
All other nonmember countries	33.75
Millet	19.95
Sorghum:	
Switzerland	35.75
All other nonmember countries	36.75

[1]There is an additional $2.00 per metric ton subsidy for shipment to the Far. East.

If grain from one crop year is exported in the following crop year, the difference between the threshold price in the last month of the old crop year and the first month of the new crop year may be granted as an additional subsidy, if the grain has not already received an end-of-season payment. In the 1970-71 crop year export of grain in storage from previous years was granted the same subsidy as 1969-70 crop year grain. (See tabulation of year-end payments, page 6.)

Third-country grain is not granted an export subsidy unless an import levy was paid. The amount of the subsidy is the EC export subsidy or the import levy, whichever is the smaller.

Since the closing of the Suez Canal, the EC has granted a supplemental subsidy of $2 per metric ton for grain exports to the Far East.

Since the devaluation of the French franc on August 9, 1969, the export subsidy for French grain has been reduced by the same amount as the import levy. These reductions will be decreased at the same rate as the levy is changed. (See "Exceptions to Levies and Threshold Prices," page 16.)

Wheat that will be denatured at its final destination is subject to a restitution different from that of ordinary wheat, but wheat denatured in the EC is subject to the barley export subsidy.

Before grain can be exported, an export certificate must be issued. The exporter must submit a copy of the export contract to the appropriate agency. This contract must show: The minimum and maximum size of the shipment, the period within which the contract will be executed, the destination, the price fixed for the contract, and the terms of payment. A surety of $5.50 per metric ton must be paid if the subsidy is fixed in advance or 50 cents per metric ton if the subsidy is not fixed in advance.

An exporter who defaults must forfeit at least 50 cents per metric ton. If the certificate were fixed in advance, the exporter would also forfeit the difference between the subsidy fixed for the last day as stated on the certificate and the current actual subsidy.

The deposit is not forfeited in the case of force majeure[4] or if the tender made to the third country is not accepted.

LEVIES ON PRODUCTS OTHER THAN FLOUR DERIVED FROM GRAIN

Treatment of grain products represents an important element of the EC grain regulations. This is because (1) some grain products are not subject to any Community-wide import levies, (2) part of the levy on grain products is not applied to imports from countries associated with the EC, and (3) part of the levy on some grain products is reduced to aid the EC processing industries.

Products not subject to levies are corn gluten feed and other corn products which are the residues of cornstarch manufacturers.

For all other products the levy is determined by a fixed element and a variable element. The fixed element is a fixed amount per metric ton. In the case of associated EC countries, this element is not included in the levy. The variable element is composed of (1) a coefficient which is fixed by regulation for each product and (2) the levy enforced on the grain or grains from which the product is derived or the levy on grains which are comparable to the unprocessed material from which the product is derived. In contrast with grain, for which the levy is fixed daily if necessary, the product levy is fixed on the first day of each month.

Determination of the variable element.—The grain levy used in the calculation of the variable element is the average of those in force for the first 25 days of the preceding month, adjusted for the monthly change in the threshold price. If during the month of import, the levy on the base grain increases by $2.50 or more per metric ton, the whole grain levy portion of the variable element of the product levy will increase by that amount rounded to the nearest multiple of $2.50. The increase will be applied the day after that in which the excess was noted. If later during the month the grain element changes either up or down by more than $2.50 per metric ton, the variable element will change accordingly, but the levy may in no case fall below that fixed on the first day of the month.

If the levy element is composed of more than one grain, the change is measured by the average for all the grains listed for the product.

[4]See footnote 3 on page 17.

Table 12.—Elements used to determine the EC levy on primary grain products

Grain	Cereal flour		Groats and meal		Hulled grain		Pearled grain		Broken grain		Flakes of grain	
	Coefficient	Fixed element	Coefficient	Fixed element	Coefficient	Fixed element	Coefficient	Fixed element	Coefficient	Fixed element	Coefficient	Fixed element
		U.S. dol. per metric ton		*U.S. dol. per metric ton*		*U.S. dol. per metric ton*		*U.S. dol. per metric ton*		*U.S. dol. per metric ton*		*U.S. dol. per metric ton*
Wheat . .	--	--	--	--	1.33	2.50	1.60	2.50	1.02	2.50	1.80	5.00
Rye . . .	--	--	1.80	5.00	1.33	2.50	1.60	2.50	1.02	2.50	1.80	5.00
Corn[1] . . .	1.80	5.00	1.80	5.00	1.60	2.50	1.60	2.50	1.02	2.50	1.80	5.00
Corn . . .	1.02	2.50	1.02	2.50	1.60	2.50	1.60	2.50	1.02	2.50	1.80	5.00
Barley . .	1.80	5.00	1.80	5.00	1.60	2.50	2.50	5.00	1.02	2.50	2.00	5.00
Oats . . .	1.80	5.00	1.80	5.00	1.60	2.50	1.60	2.50	1.02	2.50	2.00	5.00
Sorghum .	1.02	2.50	1.02	2.50	1.60	2.50	1.60	2.50	1.02	2.50	1.80	5.00

[1]Corn with fat content of 1.5 percent or less by weight.

Note: If starch content is less than 4.5 percent, or if the ash content weight is less than 2.5 percent for wheat and rye, 5 percent for oats, or 2 percent for corn and sorghum, the products become classified as cereal residues; in this case the fixed element is dropped, and the variable element equals the sum of the whole-grain levies for corn, barley, and wheat, multiplied by coefficients as follows:

Grain	Starch content	Coefficient
Corn	35 percent or less	0.10
Corn	35 percent to 45 percent, denatured	.16
Corn	35 percent to 45 percent not denatured	.32
Other cereal . .	28 percent or less	.08
Other cereal . .	28 percent to 45 percent	.32

Table 13.–Elements used to determine the EC levy on manufactured grain products

Product and grain	Grain upon which levy is based	Coefficient	Fixed element
			U.S. dollars per metric ton
Malt in the form of flour:			
Wheat	Wheat	1.78	9.00
Other grain	Barley	1.78	9.00
Malt not in the form of flour:			
Wheat	Wheat	1.33	9.00
Other grain	Barley	1.33	9.00
Roasted malt, all grain	Barley	1.55	9.00
Starch:			
Wheat	Wheat	2.20	17.00
Other grain	Corn	1.61	17.00
Gluten, not roasted:			
Wheat	Wheat	4.00	150.00
Other grain	Corn	2.00	150.00
Roasted gluten, all grain	Wheat	4.00	150.00

The levies on cereal residues and malt can be fixed in advance for the same duration as the whole grain levy. In this case, the fixed element and the coefficient on the variable element are unchanged. The grain levy portion is adjusted to the levy in force on the day in which the request for the advance fixing is made and is further adjusted to account for the threshold price in the month of import. In the case of malt, however, the grain levy portion is also adjusted for the forward price changes in the barley levy by taking into account the premiums (see "Advance Fixing of the Levy," page 15) added to the barley levy, if any.

The EC reduces the levy on grain products that are destined for the EC starch or brewing industries. The levy reduction is the product of the producer subsidy on 1 metric ton of grain (see page 7) and a coefficient, which is different for each imported grain product and the use to be made of each product. At the present time, only cornmeal for the brewing industry is subsidized. The levy reduction for cornmeal of less than 1.5 percent fat content is 1.8 times the processor subsidy for corn.

Mixed feeds.–The levy on mixed feeds containing grain is determined by a fixed and a variable element. The fixed element is $9.00 per metric ton. The variable element is determined by the sum of the following:

1. The levy on 1 ton of corn, determined in the same manner as the whole-grain levy element of the grain-product levies, multiplied by 0.16 if the starch content is 10 percent by weight, by 0.5 if the starch content is between 10 and 30 percent, or by 1.0 if the starch content is 30 percent or more; *and*

2. The levy on powdered milk multiplied by 0.50, if the milk content measured by multiplying the lactose content by 2 is over 10 percent by weight.

This procedure to determine the levy does not apply if the milk content is over 50 percent or if other products not covered by the regulations were used in the manufacture of the mixed feed.

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